



Small Business Tax Relief provided by the CARES Act

This is no doubt an ever-changing situation as it relates to Coronavirus, the **CARES Act** and how it specifically relates to you, your family and business. We want to make you aware that we are constantly analyzing data as it comes out and trying to keep our customers informed. **Please note that if you receive a PPP loan (see below), you will not qualify for the Employee Retention Credit or other benefits under the act.** Our staff at Hagen CPA will assist you in determining the best tax relief benefit for your business.

Employee Unemployment Benefits

Individuals who are otherwise eligible for unemployment benefits under state or federal law will receive \$600 per week, in addition to their regular unemployment compensation under state law, through July 2020.

If individuals remain unemployed after their state employment benefits are exhausted, the federal government will fund up to 13 weeks of additional unemployment benefits – thereby increasing to 39 weeks the 26-week maximum common under most states' unemployment laws – at a weekly rate of \$600 during that 13-week period.

Employee Retention Credit

The **CARES Act** implemented a refundable Employee Retention Credit to offset up to 50% of wages paid. Eligible employers include employers whose operations were fully or partially suspended due to a COVID-19 government-mandated shut-down order, or employers whose gross receipts declined by greater than 50 percent when compared to the corresponding calendar quarter of the prior year. The refundable credit is applicable for all wages paid between March 12, 2020, and before January 1, 2021. The credit is computed on a calendar-quarter basis and equals 50 percent of qualified wages up to \$10,000 paid to each employee or \$5,000 in actual credit. For businesses under 100 employees, all wages are eligible assuming you meet all other guidelines.

Defer Employer Social Security Tax Payments

The **CARES Act** also permits employers to delay depositing their Social Security payroll taxes incurred between March 27, 2020, and January 1, 2021. Employer portion of social security is paid on 6.2% of employee wages. Payments deferred for these periods will become payable in two installments. 50% will be due by December 31, 2021 and any remaining due by December 31, 2022.



Paycheck Protection Program

The **CARES Act** specifically addresses business financing needs through the Paycheck Protection Program (PPP). There is a lot of misinformation out there so we thought we would reach out to you and explain what we know at this time.

Importantly, these loans may be forgiven if borrowers maintain their payrolls during the crisis or restore their payrolls afterwards.

WHO IS ELIGIBLE?

- Small businesses, 501(c)(3) nonprofit, a 501(c)(19) veteran's organization, or Tribal business concern described in section 31(b)(2)(C) of the Small Business Act with fewer than 500 employees, or the applicable size standard for the industry as provided by SBA, if higher.
- Sole-proprietors, independent contractors, and other self-employed individuals as eligible for loans.
- Businesses with more than one physical location qualify so long as total combined employees are below 500 employees (unless the businesses operated under NAICS code beginning with 72) or otherwise meet the SBA's size standard based on NAICS code.
- Waives affiliation rules for businesses in the hospitality and restaurant industries, franchises that are approved on the SBA's Franchise Directory, and small businesses that receive financing through the Small Business Investment Company (SBIC) program.
- Applies current SBA affiliation rules to eligible nonprofits.

WHAT DOES A BUSINESS NEED TO DETERMINE ELIGIBILITY?

Business must be operational as of February 15, 2020 and had employees for whom it paid salaries and payroll taxes, or a paid independent contractor.

HOW IS THE TOTAL LOAN AMOUNT CALCULATED?

Average eligible monthly payroll costs, excluding compensation above \$100,000 in wages (based on prior 12 months) multiplied by 2.5 (represents months) – plus – the balance of any SBA Loan closed between 1/31/2020 and when this loan will be made, if applicable – OR – \$10 million whichever is less.



WHAT IS THE ALLOWABLE USE OF THE PROCEEDS?

Allowable uses of the loan include eligible payroll support (eligible employee salaries which excludes compensation above \$100,000 in wages, paid sick or medical leave, insurance premiums), interest paid on a mortgage (excludes any prepayment of or payment of principal) or rent, and utility payments.

HOW DO I APPLY?

This loan will be submitted and administered by banks, not the SBA directly.

WHAT IS THE TERM OF THE LOAN?

- 4% interest rate
- The loan will be unsecured.
- No personal guarantees are required.
- 10-year full payout loan.
- There will be no prepayment penalty.
- Allows for complete deferment of SBA 7(a) Loan payments for at least six (6) months and not more than a year.

ARE THERE OTHER REQUIREMENTS?

- Eligible borrowers will be required to make a good faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19.
- That funds are used to retain workers & maintain payroll, lease, and utility payments.
- You have not received duplicative funds for the same uses from another SBA program.

WILL THE LOAN BE FORGIVEN?

A borrower is eligible for loan forgiveness equal to the amount borrower spent on the following items during the 8-week period beginning on the date of the origination of the loan:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- Interest on the mortgage obligation incurred in the ordinary course of business.
- Rent on a leasing agreement
- Payments on Utilities (electricity, gas, water, telephone and internet)
- For borrowers with tipped employees, additional wages paid to those employees
- The loan forgiveness cannot exceed the principal.



How could the forgiveness be reduced?

- The amount of loan forgiveness calculated above is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees.

There will be more information available as the actual loan application is released. In the meantime, if you feel your business applies, it is recommended to start compiling and organizing the required information above. As always, **Hagen CPA** stands by you in assisting with the organization of this information.

Please feel free to reach out if you have any questions. Above all, please stay safe and positive as we navigate these uncertain times.

Sincerely,

A handwritten signature in black ink that reads 'David A. Hagen'.

David A. Hagen

A handwritten signature in black ink that reads 'Denise Webb'.

Denise M. Webb